

Message Text

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ACTION AF-10

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 7715

C O N F I D E N T I A L LAGOS 4369

PASS TO: TOM SMITH, DIRECTOR AF/W

E.O. 11652: GDS

TAGS: EFIN, NI

SUBJECT: PROGRESS MADE IN AIG INVESTMENT DISPUTE

1. AIG'S ABOUZEID, NEW AIIC MANAGING DIRECTOR RITTER AND EMBOFF MET FMG'S SECRETARY FOR FINANCE (MINISTRY OF FINANCE) U.K. BELLO ON MARCH 6 IN LATEST ATTEMPT TO SOLVE AIG/FMG EQUITY DISPUTE.

2. MEETING WAS ARRANGED BY EMBASSY ECONOMIC SECTION IMMEDIATELY FOLLOWING CARTER-OBASANJO SESSION ON APRIL 2. BELLOW WAS ASSISTED BY ACTING DIRECTOR DIVISION OF FOREIGN EXCHANGE MAKANJUOLA, THREE JUNIOR OFFICIALS FROM MINISTRY OF TRADE INSURANCE DIVISION AND NOTETAKER. DISCUSSION CENTERED ON AIG'S COMPROMISE PROPOSAL. ABOUZEID BEGAN WITH USUAL ARGUMENT THAT AIG HAD BEEN PAID ONLY SEVEN PERCENT OF TRUE VALUE OF FMG'S 1976 FORTY-NINE PERCENT ACQUISITION OF AIIC EQUITY. IN ORDER TO PROVE THAT SHARES HAD BEEN UNDERRATED, ABOUZEID STRESSED POINT THAT FMG HAD EARNED ONE-THIRD MORE IN DIVIDEND PAYMENTS LAST YEAR THAN THEY PAID FOR THE STOCK.

3. BELLO LISTENED POLITELY BUT SAID HE WANTED SPECIFICALLY TO DISCUSS AIG'S TECHNICAL SERVICES AGREEMENT (TSA) PROPOSAL,
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AND STATED HIS PREFERENCE FOR A TSA BASED ON COST OF SERVICES. ABOUZEID SAID THIS APPROACH WAS NOT SATISFACTORY BECAUSE IT WAS DIFFICULT TO QUANTIFY CERTAIN SERVICES, E.G., MANAGEMENT EXPERTISE. IN ADDITION, COST OF SERVICES APPROACH WAS NOT FLEXIBLE ENOUGH TO PROVIDE ADEQUATE COMPENSATION FOR ANY NEW SERVICES NEEDED BUT NOT COVERED BY THE AGREEMENT. BUREAUCRATIC MACHINERY WAS TOO SLOW TO CHANGE THE TERMS OF SUCH A TSA. BELLOW AGREED

THAT THIS WAS A PROBLEM BUT STILL INSISTED THAT FMG WOULD ACCEPT ONLY A TSA BASED ON ITEMIZED COST OF SERVICES. AFTER FURTHER ARGUMENT AND SEVERAL DIGRESSIONS, ABOUZEID AND BELLO BOTH COMPROMISED AND ACHIEVED ENOUGH OF AN AGREEMENT TO PERMIT FUTURE TSA NEGOTIATIONS. ABOUZEID ACCEPTED FMG POSITION THAT TSA WOULD BE BASED ON SERVICES PROVIDED SAYING QUOTE TSA IS NOT DESIGNED TO CREATE A PROFIT UNQUOTE, AND QUOTE LET'S FACE IT, A TSA IS NOTHING MORE THAN A REPAYMENT(SIC) OF SERVICES. UNQUOTE. BELLO ON HIS PART SAID THAT QUOTE WE CAN BE REASONABLE ABOUT A (TSA) PROPOSAL MAKING PROVISIONS FOR NON REGULAR (I.E., NON QUANTIFIABLE) SERVICES UNQOUTE. ABOUZEID INSTRUCTED RITTER TO BEGIN WORK ON PROPOSAL.

4. ALTHOUGH BELLO STATED HE COULD SPEAK FOR GOVERNMENT ONLY ON TSA, HE LISTENED WILLINGLY TO OTHER ASPECTS AIG PROPOSAL. ABOUZEID STATED THAT, ASIDE FROM TSA, MOST CRITICAL NEED WAS FOR AIG TO MAINTAIN EFFECTIVE CONTROL OF AIIC PRIMARILY FOR INTERNAL REASONS (I.E. U.S. TAXES, POSSIBLE U.S. SHAREHOLDER OPPOSITION, U.S. FINANCIAL PRESS INTEREST) AND THUS PROPOSED THAT STATE GOVERNMENTS WHO WOULD OWN ADDITIONAL 11 PERCENT OF AIG STOCK WOULD GIVE AIG STOCK PROXIES FOR NEXT 10 YEARS. AS A CONCESSION, STATE GOVERNMENTS WOULD NOT HAVE TO PAY FOR STOCKS AND AIIC WOULD CAPITALIZE ALL PROFITS OVER THE 10 YEAR PERIOD (I.E. AIIC WOULD REPATRIATE NO DIVIDENDS TO AIG. FMG AND STATE GOVERNMENTS WOULD ALSO EARN NO DIVIDENDS OVER

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THE PERIOD BUT THEIR EQUITY BASE AS AIG'S WOULD APPRECIATE). BELLO SAID HE QUOTE LIKED UNQUOTE THE FOREIGN EXCHANGE SAVING ASPECT OF AIG'S PROPOSAL, BUT NEITHER HE NOR ANYONE ELSE SAVE RITTER COMPREHENDED COMPLETELY ABOUZEID'S PROPOSAL. BELLO NEVERTHELESS TOLD THE TRADE MINISTRY'S INSURANCE DIVISION OFFICIALS PRESENT TO SOUND OUT THE STATE GOVERNMENTS ON THE PROPOSAL.

5. IN FOLLOW-UP CORRIDOR CONVERSATION AFTER MEETING, BELLO AGAIN EXPRESSED CONFUSION OVER AIG'S PROPOSAL ON DISPOSITION OF 11 PERCENT EQUITY. BELLO ASKED IF AIG REALLY WANTED MANAGEMENT CONTROL. ABOUZEID SAID HE THOUGHT SO BUT HE WOULD HAVE TO CHECK WITH AIG'S ACCOUNTING AND LEGAL COUNSEL TO DETERMINE IF AMANGEMENT CONTROL WAS SUFFICIENT FOR AIG'S NEEDS. BELLO THEN ASKED WHY AIG DID NOT ALREADY HAVE A MANAGEMENT AGREEMENT FOR ITS AIIC OPERATION. ABOUZEID ANSWERED THAT FORMER MIN. TRADE PERM. SEC. ALHAJI ASSURED AIG THAT NONE WAS NECESSARY. BELLO'S EYES ROLLED HEAVENWARD. HE SAID THAT IF A MANAGEMENT CONTRACT WOULD SATISFY AIG'S NEEDS, IT WOULD BE MUCH MORE PALATABLE FOR NIGERIAN GOVERNMENT THAN QUOTE THAT VERY COMPLICATED SOLUTION YOU JUST PROPOSED UNQUOTE. BELLO

ADDED THAT THE MINISTRY OF FINANCE WAS ROUTINELY GIVING MANAGEMENT CONTRACTS TO FOREIGN BANKS OPERATING IN NIGERIA AS 40 PERCENT JOINT-VENTURE PARTNERS. BELOW NOTED THAT PERMANENT SECRETARY ALHAIJI WAS NO LONGER AT MINISTRY OF TRADE. BELOW WOULD NOTIFY MINISTRY OF TRADE'S NEW PERMANENT SECRETARY SALEB THAT MINISTRY OF FINANCE SUPPORTED A FORMAL MANAGEMENT AGREEMENT FOR AIG IF AIG WANTED IT. ABOUZEID PROMISED BELLO A LETTER ON SUBJECT AS SOON AS POSSIBLE.

6. COMMENT - AFTER MONTHS OF FRUITLESS ACTIVITY, THERE IS DEFINITE MOVEMENT TOWARDS A SOLUTION OF THE AIG/FMG INVESTMENT DISPUTE. FAVORABLE MOMENTUM RESULTED FROM DECISION BY BOTH SIDES TO BACK OFF PREPARED POSITIONS AND CONFIDENTIAL

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NEGOTIATE SERIOUSLY. BELIEVE LAST WEEK'S STATE VISIT INSTRUMENTAL IN CAUSING CHANGE OF ATTITUDES IN THAT LIKELY BOTH SIDES, WHOSE PREVIOUS MEETINGS HAVE BEEN DECIDINGLY CONFRONTATIONAL, WANTED TO EXPLOIT POSITIVE ATMOSPHERE GENERATED BY PRESIDENT CARTER.

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